

IRS News Release

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IRS Tools Help Tax Professionals Prepare Accurate EITC Claims

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WASHINGTON — The Internal Revenue Service today reminded tax professionals that they can help clients receive critical tax relief from the Earned Income Tax Credit and there are IRS tools to help them prepare accurate EITC claims.

For the 2005 tax year, the EITC income limits also increased significantly, especially for married taxpayers who file jointly. The maximum credit amount also increased to \$4,400. And, a number of new provisions seek to ease the burden on victims of hurricanes Katrina, Rita and Wilma.

Tax professionals prepared 71 percent of the 21.1 million EITC claims for tax year 2004. EITC recipients received more than \$39 billion in tax relief. Each year, millions of Americans who work but earn modest incomes fail to claim the EITC. The complex tax credit also is prone to error by people who mistakenly claim the refund.

“This year, it’s easier than ever for both tax preparers and taxpayers to complete accurate claims,” said Mark W. Everson, IRS Commissioner. “Because tax professionals prepare the vast majority of EITC claims, the IRS is appealing to them to use these tools as they perform due diligence. Both the IRS and our allies in the tax professional community need to ensure that all eligible taxpayers – but only eligible taxpayers – receive the EITC they deserve.”

The IRS created an EITC Tax Preparer Electronic Toolkit which is available at www.eitcfortaxpreparers.com. To make it easier for tax professionals to navigate the complexity of EITC, this toolkit features resources and information to help:

- Determine clients' eligibility for the EITC;
- Ensure full compliance with EITC rules and regulations; and
- File accurate claims on behalf of clients.

There also is the EITC Assistant at www.irs.gov/eitc which is an easy-to-use interactive tool to help tax professionals determine if the taxpayer is qualified for EITC. This step-by-step online program allows tax preparers to answer their clients' questions on issues such as eligibility, filing status, qualifying child and credit amount.

Taxpayers questioning their eligibility also can use both tools. The Internet-based programs are available 24-hours a day, seven days a week. The EITC Assistant also is available in Spanish.

The EITC is a refundable federal income tax credit for low-income working individuals or families. The credit was created in 1975 in part to offset the burden of Social Security taxes and as a work incentive. The amount of the credit varies but it is generally determined by income and family size.

The maximum amount of earned income allowed is higher for 2005 than it was for 2004. A taxpayer may be able to take the credit for 2005 if they:

- have more than one qualifying child and earn less than \$35,263 (\$37,263 if married filing jointly),
- have one qualifying child and earn less than \$31,030 (\$33,030 if married filing jointly), or
- do not have a qualifying child and earn less than \$11,750 (\$13,750 if married filing jointly).

The maximum amount of investment income also increased to \$2,700. Generally, a qualifying child must meet relationship and residency requirement.

For 2005, there are special rules for Hurricanes Katrina, Rita, and Wilma victims who may be able to claim either their 2004 earned income if it is larger than their 2005 earned income. In certain cases, using the 2004 income level could result in a larger refund.

Free tax preparation service also is available to taxpayers who may be eligible for EITC. The IRS partners with nearly 300 coalitions that have thousands of community-based partners who operate more than 14,000 Volunteer Income Tax Assistance (VITA) sites around the nation. Volunteers trained by the IRS will prepare returns for free for almost all EITC-eligible taxpayers.

The IRS continues its efforts to work with taxpayers of limited English proficiency. In February 2006, the IRS and its local partners will provide special tax preparation services in Denver and New York.

Should EITC-eligible taxpayers want to prepare their own tax return, they should seek out Free File – the on-line tax preparation and electronic filing program offered by the software industry in partnership with the IRS. Eligibility for Free File is generally determined by income, state residency, age or military service. Taxpayers are under no obligation to purchase any services from the vendors.

In addition to on-line tools, the IRS also produces Publication 596, Earned Income Credit, which explains all the eligibility rules and includes a worksheet to determine eligibility. The publication is available in English and Spanish.